

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended.

| | | | |
|--|--------------------------|---|-----------------------|
| Local Unit of Government Type <input type="checkbox"/> County <input type="checkbox"/> City <input type="checkbox"/> Twp <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other | | Local Unit Name Schoolcraft County Road Commission | County Schoolcraft |
| Fiscal Year End 9/30/06 | Opinion Date 11/28/06 | Date Audit Report Submitted to State 1/30/07 | |

We affirm that:

We are certified public accountants licensed to practice in Michigan.

We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).

- YES NO **Check each applicable box below.** (See instructions for further detail.)
- ☒ ☐ All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
 - ☒ ☐ There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.
 - ☒ ☐ The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
 - ☒ ☐ The local unit has adopted a budget for all required funds.
 - ☒ ☐ A public hearing on the budget was held in accordance with State statute.
 - ☒ ☐ The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
 - ☒ ☐ The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
 - ☒ ☐ The local unit only holds deposits/investments that comply with statutory requirements.
 - ☒ ☐ The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin).
 - ☒ ☐ There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
 - ☒ ☐ The local unit is free of repeated comments from previous years.
 - ☒ ☐ The audit opinion is UNQUALIFIED.
 - ☒ ☐ The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
 - ☒ ☐ The board or council approves all invoices prior to payment as required by charter or statute.
 - ☒ ☐ To our knowledge, bank reconciliations that were reviewed were performed timely.

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

| | | | |
|---|--------------------------------------|--|-------------|
| We have enclosed the following: | Enclosed | Not Required (enter a brief justification) | |
| Financial Statements | <input checked="" type="checkbox"/> | | |
| The letter of Comments and Recommendations | <input checked="" type="checkbox"/> | | |
| Other (Describe) | <input type="checkbox"/> | | |
| Certified Public Accountant (Firm Name) Anderson, Tackman & Company, PLC | | Telephone Number 906-786-3111 | |
| Street Address 901 Ludington Street | | City Escanaba | State MI |
| Zip 49829 | | | |
| Authorizing CPA Signature <i>Kevin C. Pascoe, CPA</i> | Printed Name Kevin C. Pascoe, CPA | License Number 1101026882 | |

SCHOOLCRAFT COUNTY ROAD COMMISSION

BASIC FINANCIAL STATEMENTS

For the Year Ended September 30, 2006

SCHOOLCRAFT COUNTY

BOARD OF COUNTY ROAD COMMISSIONERS

Bernard J. Lund
Vice – Chairman

Thomas J. Klarich
Chairman

Gregory L. Hase
Member

Albert L. Vail
Manager

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ANDERSON, TACKMAN & COMPANY, PLC

CERTIFIED PUBLIC ACCOUNTANTS

OFFICES IN MICHIGAN AND WISCONSIN

Kristine P. Berhow, CPA, Principal
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Kevin C. Pascoe, CPA
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INDEPENDENT AUDITORS' REPORT

Board of County Road Commissioners
Schoolcraft County Road Commission
P.O. Box 160
Manistique, MI 49854

We have audited the accompanying financial statements of the governmental activities and the major fund of the Schoolcraft County Road Commission (a component unit of the County of Schoolcraft, Michigan) as of and for the year ended September 30, 2006, which collectively comprise the Road Commission's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Commission's management. Our responsibility is to express opinions on these financial statements based on our audit.

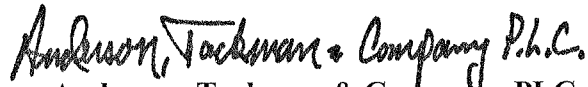
We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the basic financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall basic financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and the major fund of the Schoolcraft County Road Commission as of September 30, 2006, and the respective changes in financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 28, 2006, on our consideration of the Schoolcraft County Road Commission's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis on page 3-9 and budgetary comparison on page 29 and 30, are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Schoolcraft County Road Commission's basic financial statements. The schedules listed as supplementary are presented for purposes of additional analysis and are not a required part of the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements, and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.


Anderson, Tackman & Company, PLC
Certified Public Accountants

November 28, 2006

Management's Discussion and Analysis

Using This Annual Report

The Schoolcraft County Road Commission's discussion and analysis is designed to: (a) assist the reader in focusing on significant financial issues; (b) provide an overview of the Road Commission's financial activity; (c) identify changes in the Road Commission's financial position (its ability to address the next and subsequent year challenges); (d) identify any material deviations from the approved budget; and (e) identify any issues or concerns.

Overview of the Financial Statements

This annual report consists of four parts; Management's Discussion and Analysis (this section), the basic financial statements, required supplementary information, and an addition section that presents the operating fund broken down between primary, local and county funds. The basic financial statements include two kinds of statements that present different views of the Road Commission:

- The first two statements are government-wide financial statements that provide both long-term and short-term information about the Road Commission's overall financial status. These statements report information about the Road Commission, as a whole, using accounting methods similar to those used by private-sector companies. The Statement of Net Assets includes all of the government's assets and liabilities. All of the current year's revenues and expenses are accounted for in the Statement of Activities regardless of when cash is received or paid. The two government-wide statements report the Road Commission's net assets and how they have changed.
- The remaining statements are fund financial statements that focus on individual funds; reporting the operations in more detail than the government-wide statements.

Reporting the Road Commission as a Whole

The statement of net assets and the statement of activities report information about the Road Commission as a whole and about its activities in a way that helps answer the question of whether the Road Commission as a whole is better off or worse off as of a result of the year's activities. These statements include all assets and liabilities using the accrual basis of accounting, which is similar to the accounting method used by most private-sector companies. All of the year's revenues and expenses are taken into account regardless of when cash is received or paid.

The two statements mentioned above, report the Road Commission's net assets and the changes in them. The reader can think of the Road Commission's net assets (the difference between assets and liabilities) as one way to measure the Road Commission's financial health or financial position. Over time, increases or decreases in the Road Commission's net assets are one indicator of whether its financial health is improving or deteriorating.

Reporting the Road Commission's Major Fund

Our analysis of the Road Commission's major fund begins on page 12. The Road Commission currently has only one fund, the general operations fund, in which all of the Road Commission's activities are accounted. The general operations fund is a governmental fund type.

- Governmental funds focus on how money flows into and out of this fund and the balances left at year end that are available for spending. This fund is reported using an accounting method called modified accrual accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the Road Commission's general governmental operations and the basic service it provides. Governmental fund information helps the reader to determine whether there are more or fewer financial resources that can be spent in the near future to finance the Road Commission's services. We describe the relationship (or differences) between governmental activities (reported in the statement of net assets and the statement of activities) and the governmental fund in a reconciliation following the fund financial statements.

The Road Commission as a Whole

The Road Commission's net assets increased approximately 7.37% from \$6,463,111 to \$6,939,176 for the year ended September 30, 2006. The net assets and change in net assets are summarized below.

Restricted net assets, those restricted mainly for Act 51 purposes, decreased to \$12,319, or 1.0%. The primary reason for the decrease was new construction and federal project funds. The investment in capital assets net of related debt category increased \$488,384, or 9.3%.

Schoolcraft County Road Commission

Management's Discussion and Analysis September 30, 2006

Net assets as of the year ended September 30, 2006, compared to the prior year are as follows:

| | Governmental Activities 9/30/2005 | Governmental Activities 9/30/2006 | Variance: Increase/ (Decrease) |
|----------------------------|---|---|--------------------------------------|
| Assets | | | |
| Current and Other Assets | \$ 2,265,083 | \$ 2,152,320 | \$ (112,763) |
| Net Capital Assets | <u>7,433,732</u> | <u>7,772,332</u> | <u>338,600</u> |
| Total Assets | <u>9,698,815</u> | <u>9,924,652</u> | <u>225,837</u> |
| Liabilities | | | |
| Current Liabilities | 354,852 | 934,086 | 579,234 |
| Long-Term Liabilities | <u>2,880,852</u> | <u>2,051,390</u> | <u>(829,462)</u> |
| Total Liabilities | <u>3,235,704</u> | <u>2,985,476</u> | <u>(250,228)</u> |
| Net Assets | | | |
| Invested in Capital Assets | | | |
| Net of Related Debt | 5,273,676 | 5,762,060 | 488,384 |
| Restricted | <u>1,189,435</u> | <u>1,177,116</u> | <u>(12,319)</u> |
| Total Net Assets | <u>\$ 6,463,111</u> | <u>\$ 6,939,176</u> | <u>\$ 476,065</u> |

A summary of changes in net assets for the year ended September 30, 2006, compared to the prior year follows:

| | Governmental Activities 2005 | Governmental Activities 2006 | Increase (Decrease) |
|--------------------------------|------------------------------------|------------------------------------|------------------------|
| Program Revenue | | | |
| Licenses and Permits | \$ 6,515 | \$ 4,330 | \$ (2,185) |
| Federal Grants | - | 547,139 | 547,139 |
| State Grants | 2,391,492 | 2,082,250 | (309,242) |
| Contributions from Local Units | 40,214 | 245,778 | 205,564 |
| Charges for Services | 1,193,424 | 1,029,024 | (164,400) |
| Investment Earnings | 46,722 | 65,197 | 18,475 |
| Reimbursements | 58 | 1,082 | 1,024 |
| General Revenue | | | |
| Insurance Recoveries | 6,533 | 22,287 | 15,754 |
| Gain on Equipment Disposal | 20,783 | 500 | (20,283) |
| Total Revenue | <u>3,705,741</u> | <u>3,997,587</u> | <u>291,846</u> |
| Expenses | | | |
| Primary Road Maintenance | 1,061,255 | 1,085,671 | (24,416) |
| Local Road Maintenance | 761,219 | 476,977 | 284,242 |
| State Trunkline Maintenance | 981,489 | 958,109 | 23,380 |
| Net Equipment Expense | 381,291 | 489,266 | (107,975) |
| Net Administrative Expense | 123,853 | 145,331 | (21,478) |
| Private Driveway Snow Plowing | 28,453 | 22,871 | 5,582 |
| Non-Road Project | - | - | - |
| Infrastructure Depreciation | 207,310 | 276,970 | (69,660) |
| Compensated Absences | (50,363) | (29,539) | (20,824) |
| Interest Expense | 97,616 | 95,866 | 1,750 |
| Total Expenses | <u>3,592,123</u> | <u>3,521,522</u> | <u>70,601</u> |
| Change in Net Assets | <u>\$ 113,618</u> | <u>\$ 476,065</u> | <u>\$ 221,245</u> |

The Road Commission's Fund

The Road Commission's general operations fund is used to control the expenditures of Michigan Transportation Fund monies distributed to the county which are earmarked by law for road and highway purposes.

For the year ended September 30, 2006, the fund balance of the general operations fund decreased \$41,858 as compared to a decrease of \$455,587 in the fund balance for the year ended September 30, 2005. Total revenues were \$3,997,587, an increase of \$291,846 as compared to last year. This change in revenues resulted primarily from federal projects and selling state aid for .75 cents on the dollar for primary road construction.

Total expenditures were \$4,039,445, a decrease of \$121,883 as compared to last year. This change in expenditures is primarily due to no new expenditures for capital outlay in new buildings in the current year.

Budgetary Highlights

Prior to the beginning of any year, the Road Commission's budget is compiled based upon certain assumptions and facts available at that time. During the year, the Road Commission Board acts to amend its budget to reflect changes in these original assumptions, facts and/or economic conditions that were unknown at the time the original budget were compiled. In addition, by policy, the Board reviews and authorizes large expenditures when requested throughout the year.

The final revenue budget for 2006 was lower than the original budget by \$127,000. This was due, in part, to the cost savings from not hiring any temporary labor during the summer months, and due to no purchases of capital outlay during the current year. The actual revenue recognized during the current year was higher than the final amended budget by \$1,087. There were immaterial variances in all revenue items

The final amended expenditure budget for the current year was \$468,423 higher than the original budget, primarily due to road construction's local road construction as two local road projects were received and fulfilled after the budget was originally completed. Other factors contributing to this variance were due in part to higher gas and fuel prices. The actual expenditures recognized during the current year were less than the final amended budget by \$65,393. There immaterial variances in all expenditure items

Capital Asset and Debt Administration

Capital Assets

As of September 30, 2006, the Road Commission had \$7,772,332 invested in capital assets as follows:

| | |
|---------------------------------------|---------------------|
| Capital Assets Not Being Depreciated: | |
| Land | \$ 46,065 |
| Land and Improvements | <u>958,667</u> |
| Subtotal | <u>1,004,732</u> |
| Other Capital Assets: | |
| Land Improvements | 50,519 |
| Buildings and Improvements | 3,465,028 |
| Road Equipment | 3,934,685 |
| Shop Equipment | 121,003 |
| Other Equipment | 34,265 |
| Engineers' Equipment | 16,865 |
| Depletable Assets | 69,508 |
| Infrastructure – Bridges | 28,031 |
| Infrastructure – Roads | <u>4,192,190</u> |
| Subtotal | <u>11,912,094</u> |
| Total Capital Assets at Historic Cost | <u>12,916,826</u> |
| Total Accumulated Depreciation | <u>(5,144,494)</u> |
| Total Net Capital Assets | <u>\$ 7,772,332</u> |

Current year's major additions included the following:

| | |
|-------------------------|------------|
| Land and Improvements | \$ 189,919 |
| Local Road Construction | 869,483 |
| Equipment | 4,630 |

Debt

The Road Commission currently has a debt of \$2,276,827 for the year beginning October 1, 2006. Bonds on the building for \$1,800,000 will be paid off over a period of 25 years. The commission currently owes \$210,272 for equipment that will be paid off over the next two years. Compensated absences long term debt amounts to \$266,555.

Economic Factors and Next Year's Budget

The Board considered many factors when setting the fiscal year 2006-2007 budget. One of the factors is the economy. The commission derives approximately 50% of its revenues from the fuel tax collected. The recent economic downturn has resulted in less consumption of fuel and consequently less Michigan Transportation Funds tax to be distributed. It is estimated that Motor Vehicle Highway funds will decline in the next fiscal year by 3% due to registrations on trailers and vehicles.

The Board realizes, and the reader should understand, that there are not sufficient funds available to repair and/or rebuild every road in Schoolcraft County's transportation system. Therefore, the Board attempts to spend the public's money wisely and equitably and in the best interest of the motoring public and the citizens of Schoolcraft County.

Contacting the Road Commission's Financial Management

This financial report is designed to provide the motoring public, citizens and other interested parties a general overview of the Road Commission's finances and to show the Road Commission's accountability for the money it receives. If you have any questions about this report or need additional financial information, contact the Schoolcraft County Road Commission administrative offices at Tannery Location, Manistique, Michigan 49854, (906) 341-5634.

Basic Financial Statements

Schoolcraft County Road Commission

Statement of Net Assets September 30, 2006

ASSETS

| | |
|--|---------------------|
| Cash and Equivalents | \$ 958,734 |
| Accounts Receivable: | |
| Michigan Transportation Fund | 295,250 |
| State – Other | 42,513 |
| Due on County Road Agreements | 514,435 |
| Sundry Accounts | 35,376 |
| Inventories: | |
| Road Materials | 159,153 |
| Equipment, Parts and Materials | 90,970 |
| Prepaid Expenses | 30,689 |
| Unamortized Discount on Bonds | 25,200 |
| Capital Assets (Net of Accumulated Depreciation) | <u>7,772,332</u> |
| Total Assets | <u>\$ 9,924,652</u> |

LIABILITIES

| | |
|---|---------------------|
| Current Liabilities: | |
| Accounts Payable | \$ 19,811 |
| Accrued Liabilities | 88,794 |
| Advances: | |
| State Trunkline Maintenance | 335,647 |
| Exchanged Federal Funds for State Funds | 150,000 |
| Private Driveway Plowing | 14,302 |
| Other | 12,104 |
| Deferred Revenue: | |
| EDF Forest Road | 87,991 |
| Bonds Payable | 55,000 |
| Loans Payable | 103,798 |
| Compensated Absences | 66,639 |
| Noncurrent Liabilities: | |
| Bonds Payable | 1,745,000 |
| Loans Payable | 106,474 |
| Compensated Absences | <u>199,916</u> |
| Total Liabilities | <u>\$ 2,985,476</u> |

NET ASSETS

| | |
|------------------------------|---------------------|
| Investment in Capital Assets | |
| Net of Related Debt | \$ 5,762,060 |
| Restricted for County Road | <u>1,177,116</u> |
| Total Net Assets | <u>\$ 6,939,176</u> |

The Notes to Financial Statements are an integral part of this statement.

Schoolcraft County Road Commission

Statement of Activities For the Year Ended September 30, 2006

| | |
|---|---------------------|
| Program Expenses: | |
| Primary Road Maintenance | \$ 1,085,671 |
| Local Road Maintenance | 476,977 |
| State Trunkline Maintenance | 958,109 |
| Private Driveway Plowing | 22,871 |
| Net Equipment Expense | 489,266 |
| Net Administrative Expense | 145,331 |
| Infrastructure Depreciation | 273,602 |
| Land Improvement Depreciation | 3,368 |
| Compensated Absences | (29,539) |
| Interest Expense | <u>95,866</u> |
| Total Program Expenses | <u>3,521,522</u> |
| Program Revenues: | |
| License and Permits | 4,330 |
| Federal Grants | 547,139 |
| State Grants | 2,082,250 |
| Contributions from Local Units | 245,778 |
| Charges for Services | <u>1,029,024</u> |
| Total Program Revenues | <u>3,908,521</u> |
| Net Program Revenues | <u>386,999</u> |
| General Revenue: | |
| Investment Earnings | 65,197 |
| Refunds | 1,070 |
| Gain on Equipment Disposal | 500 |
| Insurance Proceeds | <u>22,299</u> |
| Total General Revenues and Transfers In | <u>89,066</u> |
| Change in Net Assets | 476,065 |
| Net Assets: | |
| Beginning of Year | <u>6,463,111</u> |
| End of Year | <u>\$ 6,939,176</u> |

The Notes to Financial Statements are an integral part of this statement.

Schoolcraft County Road Commission

Balance Sheet
September 30, 2006

Governmental
Fund Type
General
Operating Fund

ASSETS

| | |
|---------------------------------|---------------------|
| Cash and Equivalents | \$ 958,734 |
| Accounts Receivable: | |
| Michigan Transportation Fund | 295,250 |
| State – Other | 42,513 |
| Due on County Road Agreements | 514,435 |
| Sundry Accounts | 35,376 |
| Inventories: | |
| Road Materials | 159,153 |
| Equipment, Parts, and Materials | 90,970 |
| Prepaid Expenses | 30,689 |
| Unamortized Discount on Bonds | <u>25,200</u> |
| Total Assets | <u>\$ 2,152,320</u> |

LIABILITIES AND FUND EQUITY

| | |
|---|---------------------|
| Liabilities: | |
| Accounts Payable | \$ 19,811 |
| Accrued Liabilities | 88,794 |
| Advances: | |
| State Trunkline Maintenance | 335,647 |
| Exchanged Federal Funds for State Funds | 150,000 |
| Private Driveway Plowing | 14,302 |
| Other | 12,104 |
| Deferred Revenue: | |
| EDF Forest Road | <u>87,991</u> |
| Total Liabilities | <u>708,649</u> |
| Fund Equities: | |
| Fund Balance: | |
| Reserved for Inventory | 250,123 |
| Reserved for Prepaid Expenses | 30,689 |
| Unreserved and Undesignated | <u>1,162,859</u> |
| Total Fund Equities | <u>1,443,671</u> |
| Total Liabilities and Fund Equities | <u>\$ 2,152,320</u> |

The Notes to Financial Statements are an integral part of this statement.

Schoolcraft County Road Commission

Reconciliation of the Balance Sheet Fund Balance to the Statement of Net Assets For the Year Ended September 30, 2006

| | |
|---------------------------------|--------------|
| Total Governmental Fund Balance | \$ 1,443,671 |
|---------------------------------|--------------|

Amounts reported for governmental activities in the statement
of net assets are different because:

| | |
|--|-----------|
| Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds. | 7,772,332 |
|--|-----------|

| | |
|---|--------------------|
| Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds. | <u>(2,276,827)</u> |
|---|--------------------|

| | |
|---------------------------------------|---------------------|
| Net Assets of Governmental Activities | <u>\$ 6,939,176</u> |
|---------------------------------------|---------------------|

The Notes to Financial Statements are an integral part of this statement.

Schoolcraft County Road Commission

Statement of Revenues, Expenditures and Changes in Fund Balance For the Year Ended September 30, 2006

| | General Operating Fund |
|--|------------------------------|
| Revenues: | |
| License and Permits | \$ 4,330 |
| Federal Sources | 547,139 |
| State Sources | 2,082,250 |
| Contributions from Local Units | 245,778 |
| Charges for Services | 1,006,153 |
| Interest and Rents | 65,197 |
| Other Revenue | <u>46,740</u> |
| Total Revenues | <u>3,997,587</u> |
| Expenditures: | |
| Public Works | 4,237,626 |
| Capital Outlay | (443,831) |
| Debt Service | <u>245,650</u> |
| Total Expenditures | <u>4,039,445</u> |
| Excess of Revenues Over (Under) Expenditures | (41,858) |
| Fund Balance – October 1, 2005 | <u>1,485,529</u> |
| Fund Balance – September 30, 2006 | <u>\$ 1,443,671</u> |

The Notes to Financial Statements are an integral part of this statement.

Schoolcraft County Road Commission

Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balance of Governmental Funds to the Statement of Activities For the Year Ended September 30, 2006

| | |
|---|-------------|
| Net Change in Fund Balance – Total Governmental Funds | \$ (41,858) |
|---|-------------|

Amounts reported for governmental activities in the statements are different because:

| | |
|--|---------|
| Governmental funds report capital outlays and infrastructure costs as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current period. | 338,600 |
|--|---------|

| | |
|---|----------------|
| Repayment of notes/bonds payable is an expenditure in governmental funds, but reduces the long-term liabilities in the statement of net assets. | <u>179,323</u> |
|---|----------------|

| | |
|---|-------------------|
| Change in Net Assets of Governmental Activities | <u>\$ 476,065</u> |
|---|-------------------|

The Notes to Financial Statements are an integral part of this statement.

Notes to Financial Statements

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the Schoolcraft County Road Commission conform to accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units. The following is a summary of the significant accounting policies used by the Schoolcraft County Road Commission.

A. Reporting Entity

The Schoolcraft County Road Commission, which is established pursuant to the County Road Law (MCL 224.1), is governed by an elected 3 member Board of County Road Commissioners. The Road Commission may not issue debt without the County's approval and property tax levies are subject to County Board of Commissioners' approval.

The criteria established by the Governmental Accounting Standards Board (GASB) Statement No. 14, "The Financial Reporting Entity," for determining the reporting entity includes oversight responsibility, fiscal dependency and whether the financial statements would be misleading if the component unit data were not included. Based on the above criteria, these financial statements present the Schoolcraft County Road Commission, a discretely presented component unit of Schoolcraft County.

The Road Commission Operating Fund is used to control the expenditures of Michigan Transportation Fund monies distributed to the County, along with other revenues, which are designated for road and highway purposes. The Board of County Road Commissioners is responsible for the administration of the Road Commission Operating Fund.

B. Government-Wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of changes in net assets) report information on all of the activities of the Schoolcraft County Road Commission. There is only one fund reported in the government-wide financial statements.

The Statement of Net Assets presents the Road Commission's assets and liabilities with the difference being reported as either invested in capital assets, net of related debt, or restricted net assets.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include: (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment; and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenue.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Separate financial statements are provided for the operating fund (governmental fund). The operating fund is an independent fiscal and accounting entity with a self-balancing set of accounts. Fund accounting segregates funds according to their intended purpose and is used to aid management in demonstrating compliance with finance-related legal and contractual provisions.

C. Measurement, Focus, Basis of Accounting and Financial Statement Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Amounts reported as program revenue includes 1) charges to customers or to applicants for goods or services or privileges provided; 2) Michigan Transportation Funds (MTF), State/Federal contracts and township contributions. Internally dedicated resources are reported as general revenue rather than program revenue.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due. When both restricted and unrestricted resources are available for use, it is the Road Commission's policy to use restricted resources first, then unrestricted resources as they are needed.

Michigan transportation funds, grants, permits, township contributions and interest associated with the current fiscal period are all considered to be susceptible to accrual and have been recognized as revenue of the current fiscal period. All other revenue items are considered to be available only when cash is received by the government.

D. Assets, Liabilities, and Net Assets or Equity**Cash, Cash Equivalents and Investments**

Cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with a maturity of three months or less when acquired.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)Inventories

Inventories are priced at cost as determined on the average unit cost method. Inventory items are charged to road construction and maintenance, equipment repairs and operations as used.

Prepaid Expenses

Certain payments to vendors reflect costs applicable to future fiscal years and are recorded as prepaid expense in both the government-wide and fund financial statements.

Capital Assets

Capital assets, which include property, plant, equipment, infrastructure assets (e.g., roads, bridges and similar items), are reported in the operating fund in the government-wide financial statements. Such assets are recorded at historical cost or estimated historical cost of purchase or construction. Donated capital assets are recorded at estimated fair market value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset's lives are not capitalized.

GASB Statement 34 requires major networks and major subsystems of infrastructure assets acquired, donated, constructed, or substantially rehabilitated since fiscal years ending June 30, 1980 be inventoried and capitalized by the fourth anniversary of the mandated date of adoption of the other provisions of GASB Statement No. 34 for phase 1 and 2 governmental units. The Schoolcraft County Road Commission is a phase 3 governmental unit, which allows for prospective reporting of infrastructure assets, and the Road Commission has capitalized the current year's infrastructure, as required by GASB Statement 34, and has reported the infrastructure assets in the statement of net assets on a prospective basis for infrastructure assets purchased since 2002.

Depreciation

Depreciation is computed on the sum-of-the-years'-digits method for road equipment and straight-line method for all other assets. The depreciation rates are designed to amortize the cost of the assets over their estimated useful lives as follows:

| | |
|---------------------------|----------------|
| Building | 30 to 50 years |
| Road Equipment & Vehicles | 5 to 8 years |
| Shop Equipment | 10 years |
| Engineering Department | 4 to 10 years |
| Office Equipment | 4 to 10 years |
| Infrastructure – Roads | 8 to 30 years |
| Infrastructure – Bridges | 12 to 50 years |

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Long-Term Obligations

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the Operating Fund Statement of Net Assets.

Compensated Absences (Vacation and Sick Leave)

Road Commission employment policies provide for vacation benefits to be earned in varying amounts depending on the number of years of service of the employee. Benefits earned by each employee in the current calendar year are to be paid to the employee in the subsequent calendar year, and are permitted to accumulate up to a maximum of 2 years of vacation benefits.

Sick leave benefits are earned at the rate of 1 day for each calendar month in which the employee has worked at least 12 days and shall be accumulated up to 105 days. Upon reaching the maximum 105 days of sick leave, an additional 2 days per year will be granted for each year of agreement. Maximum sick days will be 111. Upon retirement or death, an employee, or his estate, shall be paid for 100% of accumulated sick leave. The total vacation and sick leave amount of \$266,555 is recorded in the statement of net assets as a liability.

Use of Estimates

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and affect the disclosure of contingent assets and liabilities at the date of the financial statements. These estimates and assumptions also affect the reported amounts of revenue and expenditures during the reporting period. Actual results could differ from those estimates.

NOTE 2 - STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

Budgetary Procedures

Budgetary procedures are established pursuant to PA 621 of 1978, as amended, (MCL 141.421) which requires the County Board of Road Commissioners to approve a budget for the County Road Fund. The Road Commission's Chief Administrative Officer (managing director) prepares and submits a proposed operating budget to the Board of Road Commissioners for its review and consideration. The Board conducts a public budget hearing and subsequently adopts an operating budget. The budget is amended as necessary during the year, and is approved by the Board. Also, the Board has authorized the Chief Administrative Officer to amend the Road Commission budget when necessary, without increasing the overall budget, by transferring up to 25 percent from one line item to another. The operating fund budget is prepared on the modified accrual basis of accounting, which is the same basis as the financial statements.

NOTE 2 - STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY (Continued)

The Road Commission has not complied with certain provisions of Public Act 2 of 1968, as amended. Expenditures were incurred in excess of the amount appropriated in the amended budget for one activity of the County Road Fund as follows:

| | Final Amended Budget | Actual | Variance (Unfavorable) |
|------------------------|-------------------------|------------|---------------------------|
| County Road Fund | | | |
| Principal and Interest | \$ 245,000 | \$ 245,650 | \$ (650) |

NOTE 3 - CASH AND EQUIVALENTS

The composition of cash and investments as reported in the Statement of Net Assets is presented below:

| | |
|--|-------------------|
| Financial statement presentation: | |
| Cash and equivalents | <u>\$ 958,734</u> |
| Composition of balances: | |
| Imprest Cash | \$ 2,000 |
| Bank deposits (checking and savings accounts and cd's) | <u>956,734</u> |
| TOTAL | <u>\$ 958,734</u> |

Michigan statutes authorize the Road Commission to invest in bonds, other direct obligations and repurchase agreements of the United States, certificate of deposits, saving accounts, deposit accounts or receipt of a bank which is a member of the FDIC, commercial paper, bankers' acceptances of United States banks, obligations of the State of Michigan and its political subdivisions, external investment pools, and certain mutual funds.

Attorney General's Opinion No. 6168 states that public funds may not be deposited in financial institutions located in states other than Michigan.

Interest Rate Risk. The Road Commission carries no significant interest rate risk as all of its holdings are in bank accounts with a high degree of liquidity.

Credit Risk. State law limits investments in commercial paper to the top two ratings issued by nationally recognized statistical rating organizations with a maximum maturity of 270 days. As of September 30, 2006, the Road Commission did not hold any commercial paper.

NOTE 3 - CASH AND DEPOSITS (Continued)

Custodial Credit Risk – Deposits. Custodial credit risk is the risk that in the event of a bank failure the Road Commission's deposits may not be returned. At September 30, 2006, the Road Commission held \$31,633 in checking accounts all of which was insured.

The risk disclosures for the Road Commission deposits (in regards to the savings accounts), as required by GASB Statement No. 40, are not available in that the Road Commission's cash deposits are part of the County's common bank account. The Road Commission would receive its proportional share of insurance coverage. The Road Commission has adopted the County's investment policy, which is in accordance with the provisions of Public Act 196 of 1997.

Concentration of Credit Risk. The Road Commission has no significant concentration of credit risk due to the fact that its deposits are with area banks.

Foreign Currency Risk. The Road Commission has no foreign currency risk as it has no deposits or investments in foreign currency.

All deposits for the Road Commission are in accordance with statutory authority.

NOTE 4 - DEFERRED COMPENSATION PLAN

The Schoolcraft County Road Commission offers all its employees a deferred compensation plan created in accordance with the Internal Revenue Code, Section 457. The assets of the plans were held in trust, (custodial account or annuity contract) as described in IRC Section 457 (g) for the exclusive benefit of the participants (employees) and their beneficiaries. The custodian thereof for the exclusive benefit of the participants holds the custodial account for the beneficiaries of this Section 457 plan, and the assets may not be diverted to any other use. The administrators are agents of the employer (Schoolcraft County Road Commission) for the purposes of providing direction to the custodian of the custodial account from time to time for the investment of the funds held in the account, transfer of assets to or from the account and all other matters. In accordance with the provisions of GASB Statement No. 32, plan balances and activities are not reflected in the Schoolcraft County Road Commission's financial statements.

Schoolcraft County Road Commission

Notes to Financial Statements For the Year Ended September 30, 2006

NOTE 5 - CAPITAL ASSETS

Capital asset activity of the Schoolcraft County Road Commission for the current year was as follows:

| | Beginning Balances 10/01/05 | Additions | Adjustments/ Deductions | Ending Balances 09/30/06 |
|--------------------------------------|-----------------------------------|------------|----------------------------|--------------------------------|
| Capital Assets Not Being Depreciated | | | | |
| Land | \$ 46,065 | \$ - | \$ - | \$ 46,065 |
| Land and Improvements | 768,748 | 189,919 | - | 958,667 |
| Subtotal | 814,813 | 189,919 | - | 1,004,732 |
| Capital Assets Being Depreciated | | | | |
| Land Improvements | 50,519 | - | - | 50,519 |
| Buildings | 3,465,028 | - | - | 3,465,028 |
| Road Equipment | 3,931,884 | 4,335 | 1,534 | 3,934,685 |
| Shop Equipment | 120,708 | 295 | - | 121,003 |
| Office Equipment | 34,265 | - | - | 34,265 |
| Engineers' Equipment | 16,865 | - | - | 16,865 |
| Depletable Assets | 69,508 | - | - | 69,508 |
| Infrastructure – Bridges | 28,031 | - | - | 28,031 |
| Infrastructure – Roads | 3,322,707 | 869,483 | - | 4,192,190 |
| Subtotal | 11,039,515 | 874,113 | 1,534 | 11,912,094 |
| Less Accumulated Depreciation | | | | |
| Land Improvements | 6,736 | 3,368 | - | 10,104 |
| Buildings and Improvements | 589,859 | 102,000 | - | 691,859 |
| Road Equipment | 3,118,565 | 333,149 | - | 3,451,714 |
| Shop Equipment | 78,558 | 7,702 | - | 86,260 |
| Office Equipment | 17,981 | 3,530 | - | 21,511 |
| Engineers' Equipment | 15,518 | 546 | - | 16,064 |
| Depletable Assets | 22,403 | - | - | 22,403 |
| Infrastructure – Bridges | 7,008 | 2,336 | - | 9,344 |
| Infrastructure – Roads | 563,968 | 271,267 | - | 835,235 |
| Subtotal | 4,420,596 | 723,898 | - | 5,144,494 |
| Net Capital Assets Being Depreciated | 6,618,919 | 150,215 | 1,534 | 6,767,600 |
| Total Net Capital Assets | \$ 7,433,732 | \$ 340,134 | \$ 1,534 | \$ 7,772,332 |

NOTE 5 - CAPITAL ASSETS (Continued)

Depreciation expense was charged to programs of the Schoolcraft County Road Commission as follows:

| | |
|--------------------------------|-------------------|
| Net Equipment Expense | |
| Direct Equipment | \$ 333,149 |
| Indirect Equipment | |
| Shop Building | 102,000 |
| Shop Equipment | 7,702 |
| Net Administrative Expense | |
| Engineer Equipment | 546 |
| Office Equipment and Furniture | 3,530 |
| Infrastructure | 273,603 |
| Land Improvement | <u>3,368</u> |
| Total Depreciation Expense | <u>\$ 723,898</u> |

NOTE 6 - EMPLOYEE RETIREMENT AND BENEFIT

Plan Description – The Schoolcraft County Road Commission is in an agent multiple-employer defined benefit pension plan with the Municipal Employee's Retirement System (MERS). The system provides the following provisions: normal retirement, deferred retirement, service retirement allowance, disability retirement allowance, non-duty connected death and post retirement adjustments to plan members and their beneficiaries. The service requirement is computed using credited service at the time of termination of membership multiplied by the sum of 2.25% times the final average compensation (FAC) with a maximum benefit of 80% of FAC. The most recent period for which actuarial data was available was for the fiscal year ended December 31, 2005.

MERS was organized pursuant to Section 12a of Public Act 156 of 1851 (MSA 5.333 (a); MCLA 46.12 (a)), as amended, State of Michigan. MERS is regulated under Public Act 427 of 1984, sections of which have been approved by the State Pension Commission. MERS issues a publicly available financial report that includes financial statements and required supplementary information for the system. That report may be obtained by writing to MERS at 447 North Canal Street, Lansing, Michigan 48917-9755.

Actuarial Accrued Liability – All entries and the annual employer contribution amount were based on the actuarial methods and assumptions used in the December 31, 2005 actuarial valuation. The entry age normal actuarial method was used to determine the disclosure entries.

NOTE 6 - EMPLOYEE RETIREMENT AND BENEFIT (Continued)

GASB 25 INFORMATION (as of 12/31/2005)

| | |
|---|---------------------|
| Actuarial Accrued Liability: | |
| Retirees and beneficiaries currently receiving benefits | \$ 6,150,467 |
| Terminated employees (vested former members) not yet Receiving benefits | - |
| Current employees – | |
| Accumulated employee contributions including allocated investment income | 109,237 |
| Employer financed | <u>3,343,652</u> |
| Total Actuarial Accrued Liability | \$ 9,603,356 |
| Net Assets Available for Benefits at Actuarial Value (Market Value is \$6,254,726) | <u>6,424,004</u> |
| Unfunded (Overfunded) Actuarial Accrued Liability | <u>\$ 3,179,352</u> |

GASB 27 INFORMATION (as of 12/31/2005)

| | |
|---|-----------------|
| Fiscal Year Beginning | January 1, 2007 |
| Annual Required Contribution (ARC) | \$ 291,120 |
| Amortization Factor Used – Underfunded Liabilities (32 years) | 0.053632 |

Funding Policy – MERS funding policy provides for periodic employer contributions at actuarially determined rates that, expressed as percentages of annual covered payroll, are designed to accumulate sufficient assets to pay benefits when due.

Annual Pension Costs – The normal cost and amortization payment for the fiscal year ended December 31, 2005 were determined using an attained age actuarial funding method. Unfunded actuarial accrued liabilities, if any, were amortized as a level percent of payroll over a period of 30 years. The following table provides a schedule of contribution amounts and percentages for recent years. The Road Commission was required to contribute \$253,725 for the year ended September 30, 2006. Payments were based on contribution calculations made by MERS.

NOTE 6 - EMPLOYEE RETIREMENT AND BENEFIT (Continued)

| <u>Annual Pension Cost</u> | <u>2003</u> | <u>2004</u> | <u>2005</u> |
|--|--------------|--------------|--------------|
| Annual Pension Cost (APC) | \$ 176,935 | \$ 243,432 | \$ 253,725 |
| Percentage of APC Contributed | 100% | 100% | 100% |
| Net Pension Obligation | \$ - | \$ - | \$ - |
| <u>Aggregate Accrued Liabilities</u> | | | |
| Actuarial Value of Assets | \$ 6,144,712 | \$ 6,305,405 | \$ 6,424,004 |
| Actuarial Accrued Liability | 8,515,486 | 9,196,675 | 9,603,356 |
| Unfunded AAL | (2,370,774) | (2,891,270) | (3,179,352) |
| Funded Ratio | 72% | 69% | 67% |
| Covered Payroll | 1,276,177 | 1,416,124 | 1,258,646 |
| UAAL as a Percentage of Covered Payroll | 186% | 204% | 253% |

For actuarial valuation purposes, the actuarial value of assets is determined on the basis of a calculation method that assumes the fund earns the expected rate of return (8%), and includes an adjustment to reflect market value.

NOTE 7 - FEDERAL GRANTS

The Michigan Department of Transportation (MDOT) requires that all Road Commissions report all federal and state grants pertaining to their county. During the year ended September 30, 2006, the federal aid received and expended by the Road Commission was \$22,139 for contracted projects. Contracted projects are defined as projects performed by private contractors paid for and administrated by MDOT (they are included in MDOT's single audit). Local force account projects are projects where the Road Commissions perform the work and would be subject to single audit requirements if they expended \$500,000 or more. The Road Commission participated in an exchange of federal funds for state funds during the current year which provided for \$525,000 in federal funds from MDOT. These funds are not subject to the single audit requirements.

NOTE 8 - STATE EQUIPMENT PURCHASE ADVANCE

State equipment purchase advance is determined by a formula applied to the book value of equipment of the previous fiscal year. This amount is adjusted each fiscal year in accordance with the formula and would be refunded to the State Department of Transportation upon termination of the State Highway Maintenance Contract.

NOTE 9 - LONG-TERM DEBT

The following is a summary of pertinent information concerning the County Road Commission's long-term debt.

Changes in Long-Term Debt

| | <u>10/01/05</u> | <u>Additions</u> | <u>Deletions</u> | <u>09/30/06</u> |
|---------------------------------|---------------------|------------------|-------------------|---------------------|
| MTF Bonds Payable – 2002 Series | \$ 1,850,000 | \$ - | \$ 50,000 | \$ 1,800,000 |
| Loans Payable: | | | | |
| Wells Fargo 2003 Equipment | 310,056 | - | 99,784 | 210,272 |
| Compensated absences (1) | <u>296,094</u> | <u>-</u> | <u>29,539</u> | <u>266,555</u> |
| Total | <u>\$ 2,456,150</u> | <u>\$ -</u> | <u>\$ 179,323</u> | <u>\$ 2,276,827</u> |

(1) The change in compensated absences is shown as a net deletion.

In July 2002, the County of Schoolcraft approved a Schoolcraft County Road Commission Michigan Transportation Fund Bond Issue for the purpose of constructing Road Commission buildings. The issue was for \$2,000,000 and requires annual principal payments each August 1st and semi-annual interest payments each February 1st and August 1st and has a variable interest rate ranging from 2% to 4.85%. The annual debt service requirements are as follows:

| <u>Bonds Payable:</u> | <u>Principal</u> | <u>Interest</u> | <u>Total</u> |
|-----------------------|---------------------|---------------------|---------------------|
| 2007 | \$ 55,000 | \$ 80,110 | \$ 135,110 |
| 2008 | 55,000 | 78,542 | 133,542 |
| 2009 | 55,000 | 76,810 | 131,810 |
| 2010 | 60,000 | 74,940 | 134,940 |
| 2011 | 60,000 | 72,780 | 132,780 |
| 2012-2016 | 350,000 | 326,230 | 676,230 |
| 2017-2021 | 450,000 | 242,970 | 692,970 |
| 2022-2026 | 580,000 | 123,592 | 703,592 |
| 2027 | <u>135,000</u> | <u>6,750</u> | <u>141,750</u> |
| Total Bonds Payable | <u>\$ 1,800,000</u> | <u>\$ 1,082,724</u> | <u>\$ 2,882,724</u> |

In 2003, the Road Commission financed the purchase of road equipment in the amount of \$504,647. The note calls for five annual payments of \$112,316 on each June 30,th bears an interest rate of 3.95% and is secured by the equipment. The annual principal and interest requirements are as follows:

NOTE 9 - LONG-TERM DEBT (Continued)

| <u>Year</u> | <u>Principal</u> | <u>Interest</u> | <u>Total</u> |
|-------------|-------------------|------------------|-------------------|
| 2007 | 103,798 | 8,518 | 112,316 |
| 2008 | 106,474 | 4,342 | 110,816 |
| Total | <u>\$ 210,272</u> | <u>\$ 12,860</u> | <u>\$ 223,132</u> |

NOTE 10 - COMMITMENTS AND CONTINGENCIES

Grants - The Commission has received significant financial assistance from state and federal agencies in the form of various grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreement and are subject to audit by the grantor agency. Any disallowed claims resulting from such audits could become a liability of the applicable fund of the Commission. In the opinion of management, any such disallowed claims may have a material effect on any of the financial statements included herein or on the overall financial position of the Commission at September 30, 2006. Management is unaware of any such claims as of September 30, 2006.

Risk Management – The Road Commission is exposed to various risks of loss related to property loss, torts, errors and omissions, employee injuries, as well as medical benefits provided to employees. The Road Commission has purchased commercial insurance for medical benefits claims and boiler and machinery coverage. They participate in the Michigan County Road Commission Self-Insurance Pool for claims relating to general liability, excess liability, auto liability, trunkline liability, errors and omissions, physical damage (equipment, buildings and contents) and workers compensation. Settled claims for the commercial insurance have not exceeded the amount of insurance coverage in any of the past three years.

The county Road Commissions in the State of Michigan established and created a trust fund, known as the Michigan County Road Commission Self-Insurance Pool (Pool) pursuant to the provisions of Public Act 138 of 1982. The Pool is to provide for joint and cooperative action relative to members' financial and administrative resources for the purpose of providing risk management services along with property and liability protection. Membership is restricted to Road Commissions and related Road Commission activities with the State.

The Michigan County Road Commission Self-Insurance Pool program operates as a common risk-sharing management program for Road Commissions in Michigan, member premiums are used to purchase excess insurance coverage and to pay member claims in excess of deductions amounts.

NOTE 11 – POST-EMPLOYMENT BENEFITS

The Road Commission provides post-employment health care benefits in accordance with the labor contract and personnel policy as follows:

Effective January 1, 2000, upon retirement or disability retirement, from age 55 to 65 each employee will receive single subscriber health insurance benefits at a cost of 100% paid by the Road Commission. In order to be eligible between the ages of 55 to 65, the retiree must have worked a minimum of 15 years with the Road Commission. After age 60, years of service is not an eligibility requirement. At age 65 or older, the Road Commission will only pay \$50 per month towards retirees' supplemental insurance. There were 5 employees that qualified during the year ended September 30, 2006. The total cost was \$110,986 and the amount reimbursed by retirees was \$66,244 with a net cost to the Road Commission of \$44,742. The expenditures are recognized as the insurance premiums become due.

Supplementary Information

Schoolcraft County Road Commission

Required Supplementary Information Budgetary Comparison Schedule Statement of Revenues and Other Financing Sources For the Year Ended September 30, 2006

| | Original Budget | Final Amended Budget | Actual | Variance Favorable (Unfavorable) |
|--------------------------------|---------------------|----------------------------|---------------------|--|
| Licenses and Permits | | | | |
| Permits | \$ 7,500 | \$ 4,500 | \$ 4,330 | \$ (170) |
| Federal Sources | | | | |
| Rural STP | - | 12,500 | 12,490 | (10) |
| D Funds | - | 9,800 | 9,649 | (151) |
| State Buyback (Category A) | - | 525,000 | 525,000 | - |
| State Sources | | | | |
| Michigan Transportation Fund | | | | |
| Engineering | 10,000 | 10,000 | 10,000 | - |
| Snow Removal | 115,000 | 133,000 | 132,673 | (327) |
| Allocation | 1,690,000 | 1,747,000 | 1,753,959 | 6,959 |
| Economic Development Fund | | | | |
| Forest Road | 1,060,000 | 180,000 | 180,000 | - |
| Rural Primary | - | 5,700 | 5,618 | (82) |
| Contributions from Local Units | | | | |
| Townships | 220,000 | 246,000 | 245,778 | (222) |
| Charges for Services | | | | |
| Trunkline Maintenance | 900,000 | 915,000 | 912,211 | (2,789) |
| Trunkline Non-Maintenance | 70,000 | 89,000 | 88,159 | (841) |
| Salvage Sales | 1,000 | 5,400 | 5,326 | (74) |
| Other | - | 500 | 457 | (43) |
| Interest and Rents | 20,000 | 65,200 | 65,197 | (3) |
| Other Revenue | | | | |
| Driveway Plowing | 30,000 | 24,000 | 22,871 | (1,129) |
| Other | - | 23,400 | 23,369 | (31) |
| Gain on Equipment Disposal | - | 500 | 500 | - |
| Total Operating Revenue | <u>\$ 4,123,500</u> | <u>\$ 3,996,500</u> | <u>\$ 3,997,587</u> | <u>\$ 1,087</u> |

Schoolcraft County Road Commission

Required Supplementary Information Budgetary Comparison Schedule Statement of Expenditures – Budget and Actual For the Year Ended September 30, 2006

| | Original Budget | Final Amended Budget | Actual | Variance Favorable (Unfavorable) |
|--------------------------------|---------------------|----------------------------|---------------------|--|
| Primary Road | | | | |
| Heavy Maintenance | \$ 649,018 | \$ 670,000 | \$ 669,001 | \$ 999 |
| Maintenance | 703,897 | 1,089,000 | 1,085,671 | 3,329 |
| Local Road | | | | |
| Heavy Maintenance | 330,000 | 391,000 | 390,401 | 599 |
| Maintenance | 535,000 | 478,000 | 476,977 | 1,023 |
| State Trunkline Maintenance | 970,000 | 962,000 | 958,109 | 3,891 |
| Equipment Expense – Net | (413,000) | 540,000 | 489,266 | 50,734 |
| Administrative Expense – Net | 40,000 | 146,000 | 145,331 | 669 |
| Capital Outlay – Net | (300,000) | (439,062) | (443,831) | 4,769 |
| Distributive Expense – Net | 850,000 | - | - | - |
| Other | 26,500 | 22,900 | 22,870 | 30 |
| Debt Service | | | | |
| Principal and Interest | <u>245,000</u> | <u>245,000</u> | <u>245,650</u> | <u>(650)</u> |
| Total Expenditures | 3,636,415 | 4,104,838 | <u>\$ 4,039,445</u> | <u>\$ 65,393</u> |
| Fund Balance – October 1, 2005 | <u>1,485,529</u> | <u>1,485,529</u> | | |
| Total Budget | <u>\$ 5,121,944</u> | <u>\$ 5,590,367</u> | | |

Schoolcraft County Road Commission

Analysis of Changes in Fund Balances For the Year Ended September 30, 2006

| | Primary Road Fund | Local Road Fund | County Road Commission | Total |
|--|-------------------------|-----------------------|------------------------------|---------------------|
| Total Revenues | \$ 2,032,000 | \$ 891,577 | \$ 1,074,010 | \$ 3,997,587 |
| Total Expenditures | <u>1,954,964</u> | <u>1,058,075</u> | <u>1,026,406</u> | <u>4,039,445</u> |
| Excess of Revenues Over (Under) Expenditures | 77,036 | (166,498) | 47,604 | (41,858) |
| Other Financing Sources (Uses) | | | | |
| Optional Transfers In (Out) | <u>(300,000)</u> | <u>300,000</u> | <u>-</u> | <u>-</u> |
| Excess of Revenues and Other Sources Over (Under) Expenditures and Other Uses | (222,964) | 133,502 | 47,604 | (41,858) |
| Fund Balance – October 1, 2005 | <u>959,060</u> | <u>143,892</u> | <u>382,577</u> | <u>1,485,529</u> |
| Fund Balance – September 30, 2006 | <u>\$ 736,096</u> | <u>\$ 277,394</u> | <u>\$ 430,181</u> | <u>\$ 1,443,671</u> |

The Notes to Financial Statements are an integral part of this statement.

Schoolcraft County Road Commission

Analysis of Revenues For the Year Ended September 30, 2006

| | Primary Road Fund | Local Road Fund | County Road Commission | Total |
|--------------------------------|-------------------------|-----------------------|------------------------------|---------------------|
| Licenses and Permits | \$ - | \$ - | \$ 4,330 | \$ 4,330 |
| Federal Sources | | | | |
| Surface Tran. Program (STP) | 12,491 | - | - | 12,491 |
| D Funds | 9,649 | - | - | 9,649 |
| State Buyback (Category A) | 525,000 | - | - | 525,000 |
| State Sources | | | | |
| Michigan Transportation Fund | | | | |
| Engineering | 7,656 | 2,344 | - | 10,000 |
| Snow Removal | - | 132,674 | - | 132,674 |
| Allocation | 1,346,927 | 407,032 | - | 1,753,959 |
| Economic Development Fund | | | | |
| Forest Road | 77,000 | 103,000 | - | 180,000 |
| Rural Primary | 5,618 | - | - | 5,618 |
| Contributions from Local Units | | | | |
| Townships | - | 245,778 | - | 245,778 |
| Charges for Services | | | | |
| Trunkline Maintenance | - | - | 912,211 | 912,211 |
| Trunkline Non-Maintenance | - | - | 88,159 | 88,159 |
| Salvage Sales | - | - | 5,326 | 5,326 |
| Sale of Right of Way | - | - | 457 | 457 |
| Interest and Rents | 47,659 | 749 | 16,789 | 65,197 |
| Other Revenue | | | | |
| Driveway Plowing | - | - | 22,871 | 22,871 |
| Other | - | - | 23,367 | 23,367 |
| Gain on Equipment Disposal | - | - | 500 | 500 |
| Total Revenue | <u>\$ 2,032,000</u> | <u>\$ 891,577</u> | <u>\$ 1,074,010</u> | <u>\$ 3,997,587</u> |

The Notes to Financial Statements are an integral part of this statement

Schoolcraft County Road Commission

Analysis of Expenditures For the Year Ended September 30, 2006

| | Primary Road Fund | Local Road Fund | County Road Commission | Total |
|------------------------------|-------------------------|-----------------------|------------------------------|---------------------|
| Primary Road | | | | |
| Heavy Maintenance | \$ 641,244 | \$ - | \$ - | \$ 641,244 |
| Maintenance | 1,085,671 | - | - | 1,085,671 |
| Safety Projects | 27,757 | - | - | 27,757 |
| Local Road | | | | |
| Heavy Maintenance | - | 390,401 | - | 390,401 |
| Maintenance | - | 476,977 | - | 476,977 |
| State Trunkline Maintenance | - | - | 958,109 | 958,109 |
| Equipment Expense – Net | 194,973 | 142,621 | 151,673 | 489,266 |
| Administrative Expense – Net | 97,255 | 48,076 | - | 145,331 |
| Capital Outlay – Net | (223,034) | - | (220,797) | (443,831) |
| Other | - | - | 22,870 | 22,870 |
| Debt Service | | | | |
| Debt Principal Payments | 50,000 | - | 99,784 | 149,784 |
| Interest Expense | 81,098 | - | 14,767 | 95,866 |
| Total Expenditures | <u>\$ 1,954,964</u> | <u>\$ 1,058,075</u> | <u>\$ 1,026,406</u> | <u>\$ 4,039,445</u> |

The Notes to Financial Statements are an integral part of this statement

Compliance Reports



ANDERSON, TACKMAN & COMPANY, PLC

CERTIFIED PUBLIC ACCOUNTANTS

OFFICES IN MICHIGAN AND WISCONSIN

Kristine P. Berhow, CPA, Principal
Alan M. Stotz, CPA, Principal
Raymond B. LaMarche, CPA, Principal
Erkki M. Peippo, CPA, PC, Principal

Kevin C. Pascoe, CPA
Lindsay J. Behrend, CPA

**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT
OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE
WITH GOVERNMENT AUDITING STANDARDS**

Board of County Road Commissioners
Schoolcraft County Road Commission
P.O. Box 160
Manistique, MI 49854

We have audited the accompanying financial statements of the governmental activities and the major fund of the Schoolcraft County Road Commission as of and for the year ended September 30, 2006, which collectively comprise the Commission's basic financial statements and have issued our report thereon dated November 28, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Schoolcraft County Road Commission's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Schoolcraft County Road Commission's basic financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of basic financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*. However, we noted certain immaterial instances of noncompliance, which we have reported to management of Schoolcraft County Road Commission in a separate letter dated November 28, 2006.

This report is intended solely for the information and use of the Board, federal and state awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.



Anderson, Tackman & Company, PLC
Certified Public Accountants

November 28, 2006



ANDERSON, TACKMAN & COMPANY, PLC

CERTIFIED PUBLIC ACCOUNTANTS

OFFICES IN MICHIGAN AND WISCONSIN

Kristine P. Berhow, CPA, Principal
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REPORT TO MANAGEMENT

To the Board of County Road Commissioners
Schoolcraft County Road Commission
Manistique, MI 49854

Audit Committee Communications

We have audited the financial statements of the Schoolcraft County Road Commission, Michigan for the year ended September 30, 2006, and have issued our report thereon dated November 28, 2006. Professional standards require that we provide you with the following information related to our audit.

Our Responsibility under U.S. Generally Accepted Auditing Standards and *Government Auditing Standards*

As stated in our engagement letter September 8, 2006, our responsibility, as described by professional standards, is to plan and perform our audit to obtain reasonable, but not absolute, assurance about whether the financial statements are free of material misstatement and are fairly presented in accordance with U.S. generally accepted accounting principles. Because an audit is designed to provide reasonable, but not absolute assurance and because we did not perform a detailed examination of all transactions, there is a risk that material misstatements may exist and not be detected by us.

As part of our audit, we considered the internal control of the Schoolcraft County Road Commission, Michigan. Such considerations were solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control.

As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, we performed tests of the Schoolcraft County Road Commission's compliance with certain provisions of laws, regulations, contracts, and grants. However, the objective of our tests was not to provide an opinion on compliance with such provisions.

Significant Accounting Policies

Management is responsible for the selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by Schoolcraft County Road Commission, Michigan are described in Note A to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during 2006. We noted no transactions entered into by the Schoolcraft County Road Commission during the year that were both significant and unusual, and of which, under professional standards, we are required to inform you, or transactions for which there is a lack of authoritative guidance or consensus.

Accounting Estimates

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimate affecting the financial statements was:

Management's estimates of the useful lives of fixed assets are based on its knowledge of the assets and past experience with similar assets. We evaluated the key factors and assumptions used to develop the useful lives in determining that it is reasonable in relation to the financial statements taken as a whole.

Audit Adjustments

For purposes of this letter, professional standards define an audit adjustment as a proposed correction of the financial statements that, in our judgment, may not have been detected except through our auditing procedures. An audit adjustment may or may not indicate matters that could have a significant effect on the Schoolcraft County Road Commission's financial reporting process (that is, cause future financial statements to be materially misstated). In our judgment, none of the adjustments we proposed, whether recorded or unrecorded by the Schoolcraft County Road Commission, either individually or in the aggregate, indicate matters that could have a significant effect on the Schoolcraft County Road Commission's financial reporting process.

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a matter, whether or not resolved to our satisfaction, concerning a financial accounting, reporting, or auditing matter that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the governmental unit's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Issues Discussed Prior to Retention of Independent Auditors

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the Schoolcraft County Road Commission's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing our audit.

Comments and Recommendations

In planning and performing our audit of the financial statements of the Schoolcraft County Road Commission, Michigan for the year ended September 30, 2006, we considered the Road Commission's internal control structure to determine our auditing procedures for the purpose of expressing an opinion on the financial statements and not to provide assurance on the internal control structure.

During our audit, we became aware of no matters that are opportunities for strengthening internal controls and/or operating efficiencies.

This information is intended solely for the use of the Schoolcraft County Road Commission and management of the Schoolcraft County Road Commission and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in black ink that reads "Anderson, Tackman & Company P.L.C." in a cursive, stylized font.

Anderson, Tackman & Company, PLC
Certified Public Accountants

November 28, 2006